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CENTRAL INTELLIGENCE BULLETIN  
22 JAN 1972

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DIRECTORATE OF  
INTELLIGENCE

# *Central Intelligence Bulletin*

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**№ 541**

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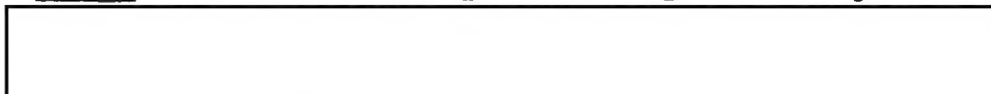
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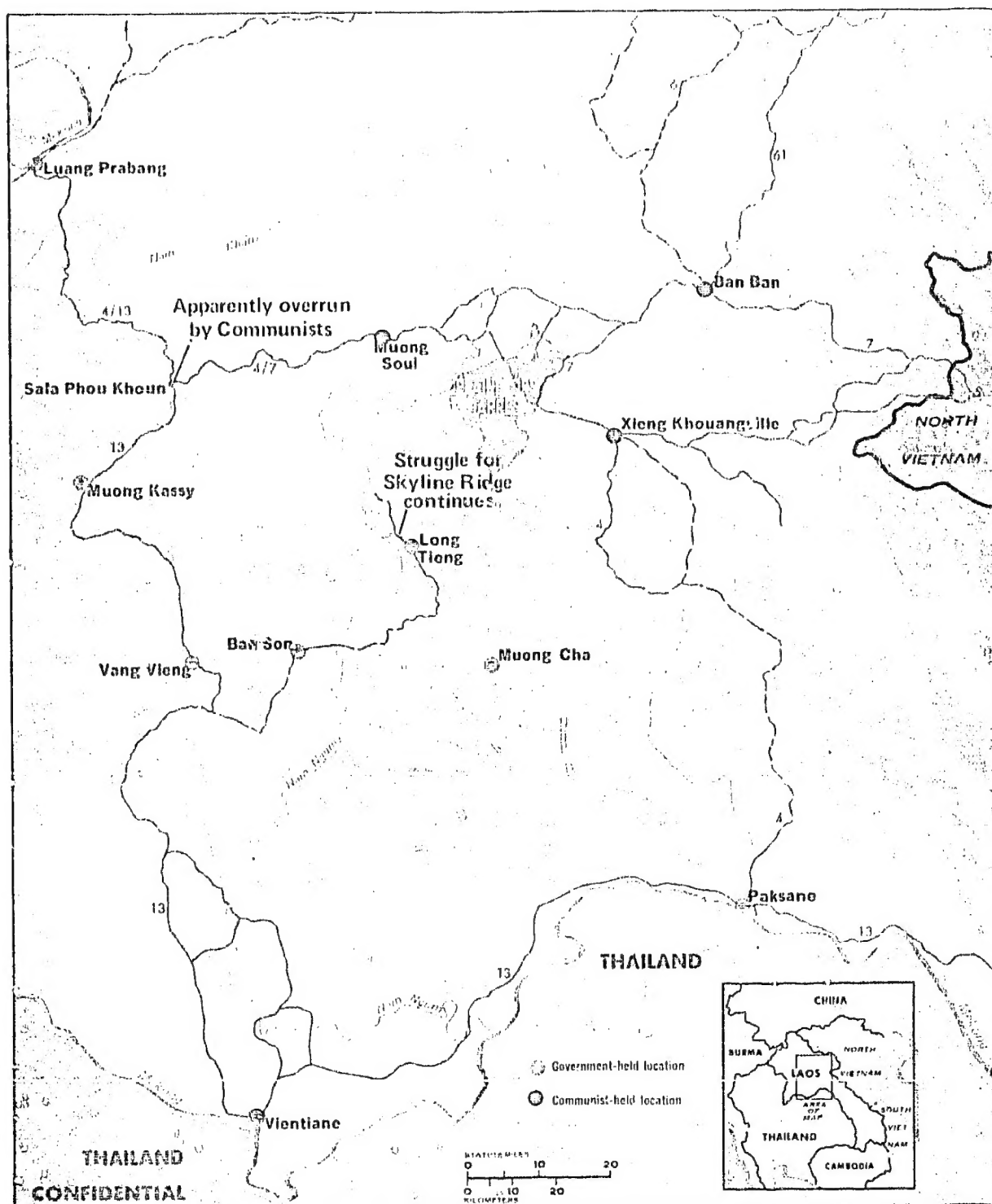


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[ LAOS: The seesaw struggle for control of Sky-line Ridge continues.

On 21 January an irregular battalion that had earlier been pushed from a forward position on the ridge regained it after heavy fighting. The battalion, which a few days ago numbered about 300 men, could muster only 50 for the counterattack and now has been replaced. There are approximately 2,000 government troops dug-in along the ridge. Intense fire from enemy units entrenched on the eastern end and northern slopes of the ridge is hampering aerial resupply drops to the units in forward positions.

Only one North Vietnamese battalion has been positively identified on the ridge, although other units are probably there. The North Vietnamese clearly have taken extensive losses and have some problems supplying their troops on the ridge, but they have shown no inclination to cave in. They have a strong reserve force--the 312th Division and the 335th Regiment, most of whose units appear to have been largely uncommitted in the fighting around Long Tieng.

To the west, Communist forces apparently have overrun the Lao Army positions and captured the four 105-mm. howitzers at Sala Phou Khoun at the junction of routes 7 and 13. There is no evidence to suggest that North Vietnamese units have moved into this area, and the attack probably was mounted by Pathet Lao and dissident Neutralists, who also occupied this area in early 1970. The severing of Route 13--the only road between Vientiane and Luang Prabang--is more a psychological than a logistical blow, however, as the road is used mainly for local traffic. (CONFIDENTIAL)

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USSR-JAPAN: The visit of Foreign Minister Gromyko to Tokyo is a major initiative in Moscow's effort to establish closer ties.

Gromyko is going to Japan at a time when the USSR is under pressure to balance off the Sino-US and Sino-Japanese dialogues. Although Moscow has clearly given higher priority to improving relations with Japan since the announcement of the President's trip to China, there have been few available indications that Gromyko will make any dramatic substantive offers. Nevertheless, both sides hope the trip, which has been pending for several years, will improve atmospherics and lay the groundwork for a rapprochement. Both Moscow and Tokyo have reason to demonstrate to the US on the eve of President Nixon's visit to Peking that they have the option of developing better bilateral relations. The visit thus may result in higher-level exchanges between Moscow and Tokyo and Soviet flexibility on Japanese fishing rights in areas adjacent to Soviet Far Eastern territory.

Gromyko probably wants to assess Japanese intentions toward China and may attempt discreetly to discourage Tokyo's overtures toward Peking. Soviet President Podgorny followed this tack in his discussion in Moscow on 19 January with a visiting leader of the Liberal Democratic Party. Podgorny cautioned the Japanese that their efforts to improve ties with Peking should not be directed at "third countries." Gromyko is also likely to probe the Japanese attitude toward Washington in the wake of the San Clemente talks.

Gromyko probably will pursue Soviet efforts to stimulate Japanese interest in closer economic cooperation, particularly in the development of Siberian resources. He may seek to dramatize recent hints of flexibility in the Soviet position on economic issues, but serious economic negotiations will likely await the oft-postponed fifth meeting of the USSR-Japan economic cooperation committee in late February.

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There has been no firm indication that Gromyko is prepared to offer anything substantially new on the question of the northern territories--the four Kurile Islands occupied by the Soviets at the end of World War II. This issue remains for the Japanese the primary obstacle to better relations. Podgorny, in his 19 January conversation, continued to voice the negative Soviet attitude on the question, simply telling his Japanese visitor that "the territorial problem has already been settled" by World War II.

In view of the depth of Japanese feeling on this issue, however, it is possible that Gromyko may at least drop some hints of flexibility similar to those made last summer by other Soviet officials. A Soviet official in Washington recently hinted [redacted]

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[redacted] that Gromyko will have "something new" to offer on the territorial question. What little flexibility Moscow has shown over the years on this issue, however, has never been enough to satisfy the Japanese. (CONFIDENTIAL NO FOREIGN DISSEM)

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USSR-CUBA: A group of Soviet ships has left Cuba and apparently is heading for home waters.

A Kashin-class guided missile destroyer, an F-class submarine, an ocean-going rescue tug, and a tanker left Mariel late on 20 January. They have passed through the Florida Strait and are maintaining a northeasterly course.

Another ocean-going rescue tug arrived in Cuba earlier this week to relieve the tug now heading back. The latter tug had been in Cuba since September 1970. The destroyer and the submarine were remnants of a larger group of Soviet ships that arrived in Cuba late last October. While there, the two units frequently conducted anti-submarine warfare exercises, often with Cuban naval forces.

In addition to the remaining rescue tug at Mariel, the two special support barges are still in Cienfuegos. (SECRET NO FOREIGN DISSEM)

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ARGENTINA: President Lanusse's political and economic options are being severely limited by growing military and labor pressures.

Senior army officers are becoming increasingly concerned that Lanusse's gradualist policies for restoring economic health are damaging his potential candidacy in the national elections scheduled for next year. Some high-ranking officers reportedly fear that Lanusse's resistance to a more populist approach to Argentina's serious economic problems will open the way to a Peronist or leftist victory at the polls. Such a possibility is anathema to the military

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Lanusse is also coming under pressure from Peronist labor, which opposes the restriction on wage increases announced earlier this month. The wage restrictions, however, are part of the government's new economic program, which was designed not only to slow inflation and spur the economy, but to meet the requirements for obtaining substantial international loans. An economic team led by Finance Minister Licciardo and central bank president Brignone will present the program in Washington later this month in the hope of obtaining approximately \$1 billion from the IMF, the US Government, and private banks in New York and Europe.

The Argentine President apparently hopes that success in this quest for international financing will assuage his critics in military and financial circles and provide him with maneuvering room in his negotiations with labor. Failure to obtain foreign loans would significantly weaken his position, perhaps irreparably. Success in obtaining the loans, however, would not assure political success and the next few months of political maneuvering will be critical for Lanusse. (SECRET NO FOREIGN DISSEM)

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WESTERN EUROPE: Government and banking officials are becoming more vocal in expressing doubts about the durability of the recent Smithsonian agreement on currency realignments.

Although there was general understanding that this agreement alone would not resolve all the major world monetary problems, the Europeans now are highlighting the need for early resolution of such problems as convertibility of the dollar and financing of the US payments deficit, as well as control of short-term capital movements. These issues were most recently touched on, for example, by EC Commission Vice President Barre in a speech to the European Parliament on 18 January.

Growing attention is also directed to declining interest rates in the US, which is contributing to the pressures on the dollar in the exchange markets. Barre pointedly spoke of the need to buttress the recent currency realignments by "stabilizing domestic economic policies, particularly in countries suffering from fundamental disequilibrium." A high French Foreign Ministry official this week expressed concern over US monetary and fiscal policies which he said are "not designed to strengthen the external position of the dollar." President Pompidou's economic and financial adviser has [redacted] voiced alarm at the downward drift of the dollar and complained about the "apparent passivity" of the US in face of this problem.

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The Europeans in general fear that they will be forced to lower interest rates further or intervene in the markets to buy dollars--developments that would contribute to inflationary pressures in their own countries. (CONFIDENTIAL NO FOREIGN DISSEM)

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EAST GERMANY: The Honecker regime has issued a comprehensive statement calling for greater economic and ideological discipline.

In an article appearing simultaneously in Neues Deutschland and the Communist journal Problems of Peace and Socialism, Honecker demanded an end to unsystematic development of the economy, so characteristic of the past, and called for a return to the principles of Marxism-Leninism as the basis of economic policy. Above all, East German ideologists and economists were told to set aside the old Ulbrichtian notion that the GDR could serve as a model for the developed nations of the West. Instead, the people were told that they are a long way from reaching the stage of socialism and that the USSR is the only model to follow. According to Honecker, East Germany's new "strategic" economic policy orientation would fix the "priority of the workers' needs" and not be geared to short-term gains.

Honecker called for vigilance in the face of the seductive appeals of social democracy and revisionism. Noting that these are part of the anti-Communist and anti-Soviet arsenal of the West, he urged more thorough ideological work by the party. In the context of his sweeping reorientation of East German long-term economic priorities, he flatly condemned Maoism as a fundamental enemy of international Communism.

The publication of a lengthy article laying down ideological guidelines by a Communist party chief except in connection with a party congress is very unusual. The impact of East Germany's negotiations with West Germany as well as the changes induced in Eastern Europe by Brandt's Ostpolitik have opened new prospects for that region, challenging in particular many of the GDR's traditional positions. (CONFIDENTIAL)

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SUDAN: President Numayri's position shows some signs of deterioration.

A conflict appears to be developing between the military regime's pro-Egyptian faction and a nationalist clique in the army which favors an inward-looking policy. Numayri's vacillation between domestic concerns and involvement in Arab affairs is increasing tensions between the contending forces. In the view of the US interests section, the reappearance of political ferment, a normal condition since Numayri took power in mid-1969 but notably absent during the past six months, seems partially attributable to Egyptian meddling.

Egyptian Foreign Minister Ghalib's visit earlier this month appears to have led to increased pressure from Cairo on Sudan's leaders to realign more closely with the Arab states confronting Israel and to mend their fences with the Soviet Union. The Egyptians apparently are arguing that in view of the alleged failure of the West to provide desperately needed economic aid, Sudan is obliged to depend on the Soviet Union and its allies.

A possibly related development was the resignation this week of the chief of national security, known for his anti-Egyptian views and his temporary replacement by a man more sympathetic toward Cairo.

Whatever the outcome of the present jousting within the regime, the alignment of forces within the army remains the key to Sudan's political future. The nationalists, encouraged by the popularity of their views, may at some point be tempted to try their hand at running the country. For the moment, however, the new generation of potential coup plotters is deterred by Numayri's personal popularity and the lack of a program of their own to meet Sudan's mounting economic problems. (CONFIDENTIAL)

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YUGOSLAVIA: Favorable developments late in 1971 have improved prospects for achieving some measure of economic stability in 1972.

Because of a sudden jump in exports, the monthly trade deficit in December was the smallest since March 1970. The deficit for the year as a whole still was 20 percent above the record level in 1970, but a substantial rise in earnings from non-commodity transactions probably held the balance-of-payments gap to less than the \$365 million registered in 1970.

Prospects for economic stability this year also have been brightened by a slowdown in the volume of investment in the last half of 1971. Excessive investments had led to a rapid and poorly structured growth in industrial output which, in turn, required heavy imports. Belgrade hopes that moderate credit controls will continue to limit investments in 1972. The government also expects that a lower rate of industrial growth and the latest dinar devaluation will hold down imports and help promote exports.

Inflationary pressure, however, still is strong. In spite of a price freeze imposed in late November, the cost of living rose by 1.3 percent in December. Policy-makers are trying to limit the rise in the cost of living to five percent in 1972. They have prolonged the price freeze to 1 April, warning that it will be extended further if inflationary pressure has not eased by then.

The domestic stabilization program continues to be supported by external financial assistance. West Germany recently activated a credit of approximately \$100 million, and negotiations for credits are continuing with France and Japan. Announcement is expected soon of a \$100 million Soviet credit for development of Yugoslavia's bauxite and alumina industries.

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For the short run, the main unresolved problem is inflationary wage increases, which averaged 21 percent in 1971. The party has approved some form of wage policy, but so far strong trade union opposition has delayed its introduction. (CONFIDENTIAL)

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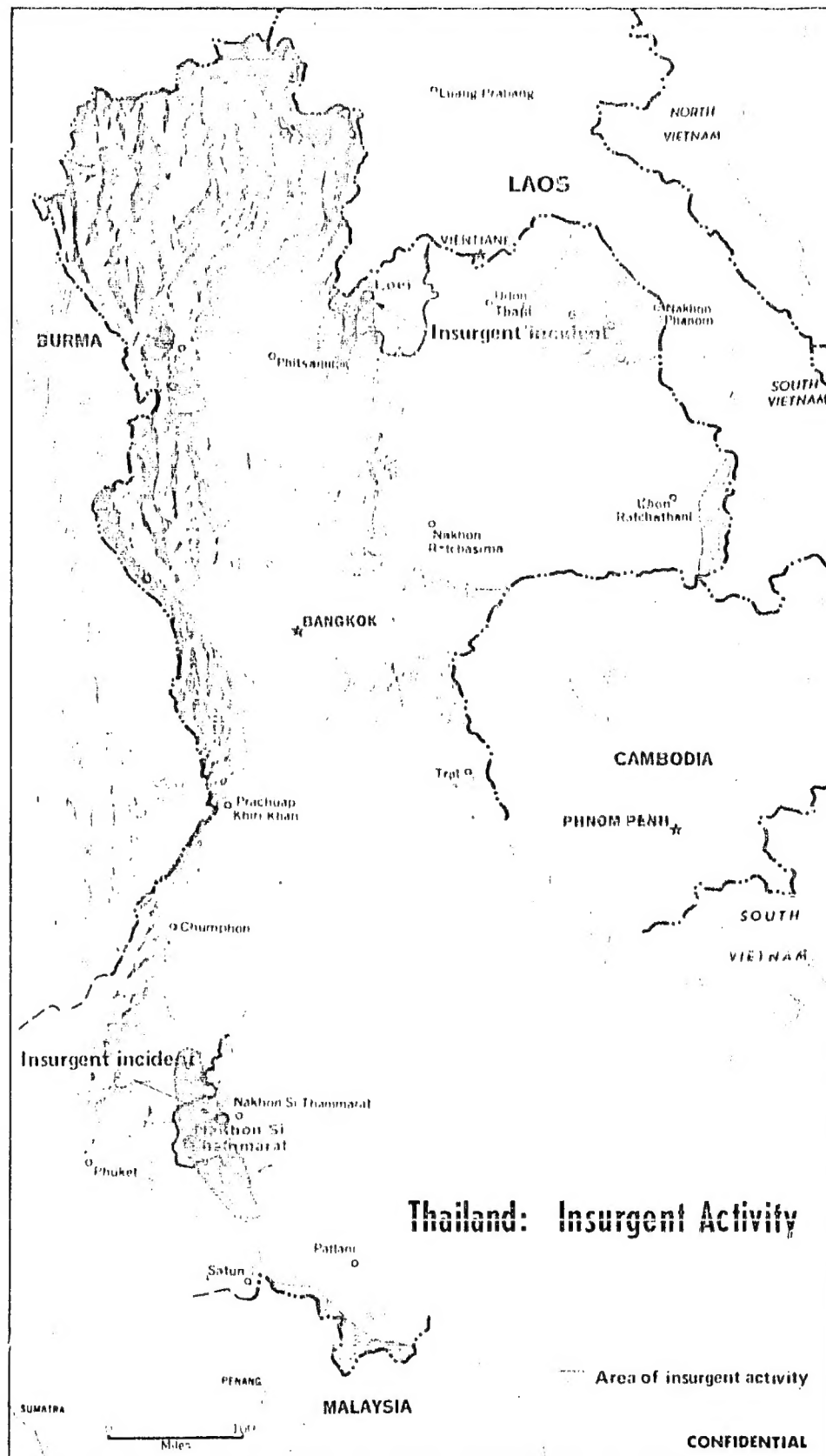
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NOTES

PAKISTAN: President Bhutto, on his upcoming tour of Middle East countries, is likely to seek further diplomatic and financial support and to try to demonstrate that he is a reasonable man with whom it is possible to deal [REDACTED]

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[REDACTED] Bhutto is scheduled to arrive in Ankara on 24 January; he will probably also visit many Arab capitals as well. Around 31 January Bhutto will leave for a short visit to Peking, but it appears unlikely that any significant change in Sino-Pakistani relations will result. The China trip may be designed mainly to demonstrate to the Pakistani people that Bhutto continues to enjoy access to Peking. (CONFIDENTIAL)

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THAILAND: Two serious incidents will heighten Bangkok's concern over the Communist insurgent threat. Fourteen troops were killed in a rebel ambush in Nakhon Si Thammarat Province on 19 January shortly before a visit of Chairman Thanom Kittikachorn to the area. The attack was the most serious incident in the area in several months. The next day 15 policemen were dead or missing after a guerrilla raid on a police post in Loei Province. Although the widely separated attacks were unrelated, the aggressiveness shown by the Communists and the heavy casualties sustained by government forces may spur Thai planning already underway for more sustained counterinsurgency operations this year. (CONFIDENTIAL)

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EUROPEAN COMMUNITIES: Commissioner Mansholt has submitted to the Commission a revised, higher agricultural price schedule for the coming crop year. The proposed increases, which encompass five percent for most grains, including corn, and even higher for most livestock products, are intended in part to compensate for the rapid increases in general price levels throughout the Community. He also recommended income deficiency payments for low income farmers, a measure which the US has long urged the EC to adopt. Commission discussion of Mansholt's recommendations will be complicated by the question of revaluing the unit of account in which common agricultural policy prices are stated. The Commission is not expected to submit a formal proposal to the Council for several weeks. The UK and other candidates for EC membership will be given an opportunity to consult on the Commission proposal before the Council acts on it. (CONFIDENTIAL NO FOREIGN DISSEM)

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NORWAY-EC: Despite the resignation of Fisheries Minister Hoem because of his unwillingness to sign the EC accession treaty, Prime Minister Bratteli is resolved to seek public and parliamentary approval later this year for entry into the European Communities. Bratteli's candidate as the new fisheries minister, Magnus Andersen, also wields considerable influence in the fishing community, which has been highly distrustful of the compromise that opened the way for Norway's signature today of the accession treaty. Unlike his predecessor, however, Andersen is now an advocate of membership in the Communities. Opinion polls indicate that the outcome of the advisory referendum later this spring will be close, and three-quarters of parliament must then support membership. (CONFIDENTIAL)

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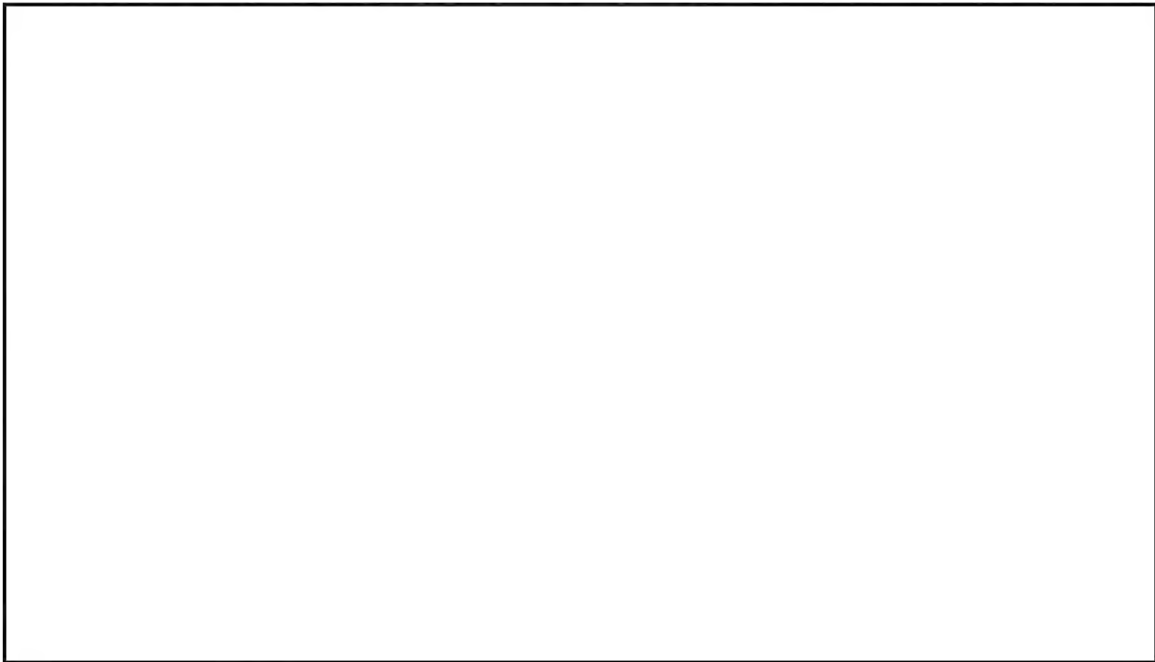
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ITALY: With imports stagnating because of the domestic economic malaise, the over-all balance-of-payments surplus increased substantially in 1971 to \$759 million. Export growth was strong enough to cover the import bill adequately. Short-term capital outflows, a major problem until mid-1970, remained at manageable levels. Reflecting concern that a large surplus might result in increased pressures on the lira in the second half of the year, the government encouraged prepayment of \$780 million in foreign debt, mostly Eurodollar borrowings made to offset banknote outflows last year. Official reserves, including medium- and long-term assets, now stand at \$6.6 billion, about half in convertible currencies. The reserve figure includes \$84 million gained from revaluing non-dollar currencies at the new central rates. (CONFIDENTIAL)



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